Thembisile Hani Local Municipality
Annual Financial Statements
for the year ended 30 June, 2012

Mayoral committee	
Executive Mayor	Clr NJ Mahlangu
Councillors	Clr PP Mojela
	Clr B Sibanyoni
	Clr S Mnguni
	Clr JJ Tau
	Clr LM Tshabangu
	Clr LM Mboweni
	Clr JJ Jiyane
Grading of local authority	Grade 3
Chief Finance Officer (CFO)	MS Makgaba
Accounting Officer	JI Sindane
Registered office	24 Kwaggafontein C Opposite Police Station Kwaggafontein 3100
Postal address	Private Bag X4041 Empumalanga 3100
Bankers	First National Bank
Auditors	Auditor-General

The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General of South Africa are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Equitable Share for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Provincial Treasury has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General of South Africa are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the Auditor General of South Africa and their report is presented on page 4.

The annual financial statements set out on pages 4 to 33, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August, 2012 and were signed on its behalf by:

JI Sindane
Municipal Manager

The accounting officer submits his report for the year ended 30 June, 2012.

1. Review of activities

Main business and operations

The municipality is engaged in municipal services and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Statement of Financial Position

Figures in Rand	Notes	2012	2011
Assets			
Current Assets			
Trade and other receivables	4	5,588,401	2,582,321
VAT receivable	5	14,698,986	6,294,052
Cash and cash equivalents	6	75,911,716	84,584,233
Total Current Assets		**96,199,103**	**93,460,606**
Non-Current Assets			
Property, plant and equipment	3	2,016,301,120	1,986,522,266
Total Assets		**2,112,500,223**	**2,079,982,872**
Liabilities			
Current Liabilities			
Trade and other payables	9	52,635,137	13,784,650
Unspent conditional grants	7	28,868,821	49,419,642
Total Current Liabilities		**81,503,958**	**63,204,292**
Non-Current Liabilities			
Provisions	8	8,617,991	8,626,160
Total Non-Current Liabilities		**8,617,991**	**8,626,160**
Total Liabilities		**90,121,949**	**71,830,452**
Total Net Assets		**2,022,378,274**	**2,008,152,420**
Net Assets			
Accumulated surplus		2,022,378,274	2,008,152,420

Statement of Financial Performance

Figures in Rand	Notes	2012	2011
Revenue	10	358,599,807	287,581,981
Other income		4,509,191	4,133,710
Operating expenses		(367,303,885)	(315,376,644)
Operating surplus/(deficit)	14	**(4,194,887)**	**(23,660,953)**
Investment revenue	17	18,420,745	13,448,328
Surplus (deficit) for the year		**14,225,858**	**(10,212,625)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July, 2010	**142,579,003**	**142,579,003**
Changes in net assets		
Change in accounting estimate	1,875,786,042	1,875,786,042
Opening balance as previously reported	1,875,786,042	1,875,786,042
Restated profit for the year	(10,212,625)	(10,212,625)
Total changes	1,865,573,417	1,865,573,417
Balance at 01 July, 2011	**2,008,152,416**	**2,008,152,416**
Changes in net assets		
Surplus for the year	14,225,858	14,225,858
Total changes	14,225,858	14,225,858
Balance at 30 June, 2012	**2,022,378,274**	**2,022,378,274**

Cash Flow Statement

Figures in Rand	Notes	2012	2011
Cash flows from operating activities			
Receipts			
VAT Refunds/(Payments)		(8,404,934)	22,029,915
Sale of goods and services		11,235,522	10,744,625
Grants		292,063,000	259,896,353
Interest income		5,512,287	4,168,740
Other receipts		1,757,396	1,979,303
Total receipts		302,163,271	298,818,936
Payments			
Employee costs		(65,886,884)	(59,028,908)
Suppliers		(153,847,579)	(164,855,088)
Total payments		(219,734,463)	(223,883,996)
Net cash flows from operating activities	21	**82,428,808**	**74,934,940**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(91,539,920)	(42,681,557)
Proceeds from sale of property, plant and equipment	3	438,596	-
Net cash flows from investing activities		**(91,101,324)**	**(42,681,557)**
Net increase/(decrease) in cash and cash equivalents		**(8,672,516)**	**32,253,383**
Cash and cash equivalents at the beginning of the year		84,584,233	52,330,850
Cash and cash equivalents at the end of the year	6	**75,911,717**	**84,584,233**

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 8 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Accounting Policies

1.2 Property, plant and equipment (continued)

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	50
Infrastructure	
• Roads and Stormwater	25 - 50
• Reservoirs	50
• Electrical	25
• Water Reticulation	120
• Sewer	60
• Bulk Water Pipeline	60 - 100
• Sewage Pump Station	50
• Water Pump Station	50
• Stabilisation Ponds	25
• Waste Water Treatment Plant	50
• Borehole	30
• Telemetry System	5
Community	
• Buildings	50
• Recreational facilities	50
• Halls	50
• Libraries	50
• Parks and gardens	50
• Creche	50
• Abbatoir	50
Other assets	
• Plant and Equipment	5 - 10
• IT Equipment	3 - 5
• Office equipment	3 - 7
• Furniture and fittings	3 - 7
• Motor Vehicles	5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

1.2 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Accounting Policies

1.4 Financial instruments (continued)

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

1.4 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Accounting Policies

1.4 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.5 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Consumable stores

Consumable stores are initially measured at cost except where consumable stores are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently consumable stores are measured at the lower of cost and net realisable value.

Consumable stores are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of consumable stores comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the consumable stores to their present location and condition.

The cost of consumable stores of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of consumable stores is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all consumable stores having a similar nature and use to the municipality.

When consumable stores are sold, the carrying amounts of those consumable stores are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of consumable stores to net realisable value or current replacement cost and all losses of consumable stores are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of consumable stores, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of consumable stores recognised as an expense in the period in which the reversal occurs.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Accounting Policies

1.7 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.8 Revenue

Revenue comprises of sales to customers and service rendered to customers. Revenue is stated at the invoice amount and is exclusive of value added taxation.

1.9 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

1.10 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.11 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.13 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.15 Conditional grants receipts

Revenue received from conditional grants and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.16 Budget information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.17 Donations and subsidy receipts

Income from donations and subidies is recognised as income on receipt.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	46,388,960	(2,429,410)	43,959,550	45,174,255	-	45,174,255
Plant and machinery	19,754,268	(8,790,051)	10,964,217	17,449,268	(5,768,228)	11,681,040
Furniture and fixtures	4,233,373	(2,459,030)	1,774,343	3,708,499	(1,829,117)	1,879,382
Motor vehicles	20,666,967	(14,395,418)	6,271,549	19,045,452	(10,422,185)	8,623,267
Office equipment	549,142	(498,125)	51,017	205,251	(133,227)	72,024
IT equipment	3,133,686	(1,332,522)	1,801,164	3,578,391	(1,332,522)	2,245,869
Infrastructure	1,932,088,575	(102,181,527)	1,829,907,048	1,874,326,777	(49,967,454)	1,824,359,323
Community	68,703,195	(4,977,295)	63,725,900	68,703,195	(2,780,373)	65,922,822
Assets under construction	57,846,332	-	57,846,332	26,564,284	-	26,564,284
Total	**2,153,364,498**	**(137,063,378)**	**2,016,301,120**	**2,058,755,372**	**(72,233,106)**	**1,986,522,266**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	45,174,255	-	-	(1,214,705)	43,959,550
Plant and machinery	11,681,040	2,305,000	-	(3,021,823)	10,964,217
Furniture and fixtures	1,879,382	524,874	-	(629,913)	1,774,343
Motor vehicles	8,623,267	1,621,515	-	(3,973,233)	6,271,549
Office equipment	72,024	21,220	-	(42,227)	51,017
IT equipment	2,245,869	328,495	-	(773,200)	1,801,164
Infrastructure	1,824,359,323	-	57,761,798	(52,214,073)	1,829,907,048
Community	65,922,822	-	-	(2,196,922)	63,725,900
Assets under construction	26,564,284	89,043,846	(57,761,798)	-	57,846,332
	1,986,522,266	**93,844,950**	**-**	**(64,066,096)**	**2,016,301,120**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	46,388,960	-	-	(1,214,705)	45,174,255
Plant and machinery	14,476,780	-	-	(2,795,740)	11,681,040
Furniture and fixtures	2,241,577	199,818	-	(562,013)	1,879,382
Motor vehicles	10,410,249	2,024,100	-	(3,811,082)	8,623,267
Office equipment	205,251	-	-	(133,227)	72,024
IT equipment	1,014,185	1,724,426	-	(492,742)	2,245,869
Infrastructure	1,851,163,532	-	23,163,245	(49,967,454)	1,824,359,323
Community	67,871,061	191,980	-	(2,140,219)	65,922,822
Assets under construction	8,901,582	40,825,947	(23,163,245)	-	26,564,284
	2,002,673,177	**44,966,271**	**-**	**(61,117,182)**	**1,986,522,266**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Trade and other receivables

Trade debtors	173,289,697	126,117,770
Less provision for bad debts	(170,527,322)	(125,874,125)
Total net trade debtors	2,762,736	243,645
Other debtors	2,825,667	2,338,672
	5,588,401	**2,582,321**

A total amount of R 11,168,879.40 relating to payments made in the 2009/2010 financial year which could not be allocated in the prior year have subsequently been allocated. The balance of R 3,059,138.80 also relating to payments made in the 2009/2010 financial still could not be allocated to specific votes, this amount has been fully impaired.

A balance of R 1,114,008.06 owed by SARS for PAYE/UIF overpayments in the prior financial year has subsequently been allocated to returns submitted by the municipality.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June, 2012, R 2,762,736 (2011: R 243,645) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	496,385	101,412
2 months past due	347,824	13,767
3 months past due	1,918,167	128,466

Trade and other receivables impaired

As of 30 June, 2012, trade and other receivables of R 173,289,697 (2011: R 126,117,770) were impaired and provided for.

The amount of the provision was R 170,527,322 as of 30 June, 2012 (2011: R 125,874,125).

3 to 6 months	505,243	1,125,652
Over 6 months	170,022,079	124,748,473

Reconciliation of provision for impairment of trade and other receivables

Opening balance	125,874,125	88,212,225
Provision for impairment	44,653,197	37,661,900
	170,527,322	**125,874,125**

5. VAT receivable

VAT	14,698,986	6,294,052

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,000	5,000
Bank balances	53,994,350	36,665,161
Short-term deposits	21,912,366	47,914,072
	75,911,716	**84,584,233**

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

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Account number / description	Bank statement balances			Cash book balances		
	30 June, 2012	30 June, 2011	30 June, 2010	30 June, 2012	30 June, 2011	30 June, 2010
First National Bank - Current Account - 620-262-96427	34,592,910	49,065,921	52,322,863	34,592,910	34,516,546	44,546,438
First National Bank - Call Deposit - 621-470-52427	1,689,995	1,609,149	1,527,722	1,689,995	1,609,149	1,527,722
ABSA BANK - Current Account - 407-299-1043	-	-	4,089,990	-	-	4,089,990
ABSA Bank - Call Account - 908-006-3497	-	-	33,061	-	-	33,061
Capitec Bank - Current Account - 117-301-4177	306,766	2,148,615	1,478,212	306,766	2,148,615	1,478,212
Nedbank - Call Deposit - 037-881-5279-27000001	-	-	650,427	-	-	650,427
Investec Bank - Account Type - 110-0463-500450	20,222,371	46,304,924	-	20,222,371	46,304,924	-
Absa Bank - Call Deposit - 206-847-1552	-	-	5,000,000	-	-	5,000,000
Nedbank - Current Account	19,094,682	-	-	19,094,682	-	-
Total	**75,906,724**	**99,128,609**	**65,102,275**	**75,906,724**	**84,579,234**	**57,325,850**

7. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

	2012	2011
Unspent conditional grants and receipts		
MIG grant	28,868,821	47,990,019
MSIG grant	-	326,043
EPWP	-	1,103,580
	28,868,821	**49,419,642**

Movement during the year

	2012	2011
Balance at the beginning of the year	49,419,642	73,148,128
Additions during the year	92,796,526	79,047,000
Income recognition during the year	(113,347,347)	(102,775,486)
	28,868,821	**49,419,642**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	8,626,160	(8,169)	8,617,991

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	8,511,798	114,362	8,626,160

The municipality has 2 dumping sites, one in Kgwaggafontein which is 3,5 hectares and the other one in Kwamhlanga which is 5.4 hectares.

The rehabilitation cost estimate was based on the rehabilitation cost per square meter as applicable to other similar municipalities and adjusted for inflation.

The dumping site provision represents management's best estimate of the municipality's liability to restore the dumping site.

9. Trade and other payables

	2012	2011
Other creditors	1,744,705	844,037
Retentions	11,725,017	5,122,610
Accrued leave pay	3,830,594	2,632,772
Income collected on behalf of PRODIBA	394,975	542,236
Accrued expenses	34,845,122	4,570,787
Other deposits	94,724	72,208
	52,635,137	**13,784,650**

Unallocated deposits to the total value of R 2,171,099.50 relating to the 2009/2010 financial year which could not be allocated in the prior year has subsequently been allocated. In addition the income received for the printing of motor vehicle licence was incorreclty recognised as the PRODIBA liability to the value of R 811,536, this amount has subsequently been reclassified to the Department of Transport debtor.

10. Revenue

	2012	2011
Property rates	6,535,187	3,394,967
Service charges	32,701,908	28,646,786
Rental of facilities & equipment	335,487	353,298
Fines	44,724	72,140
Licences and permits	6,368,680	6,225,601
Government grants & subsidies	312,613,821	248,889,189
	358,599,807	**287,581,981**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	32,701,908	28,646,786
Rental of facilities & equipment	335,487	353,298
Licences and permits	6,368,680	6,225,601
	39,406,075	**35,225,685**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates and traffic fines		
Property rates	6,535,187	3,394,967
Fines	44,724	72,140
Grant income		
Grant receipts	312,613,821	248,889,189
	319,193,732	**252,356,296**

Figures in Rand	2012	2011

11. Government grants and subsidies

Equitable share	191,831,000	172,932,353
MSIG grant	1,116,043	423,957
MIG grant	108,227,198	63,311,255
Water subsidy	6,985,000	7,917,000
International electric grant	1,813,000	216,718
FMG grant	1,250,000	3,301,814
EPWP	1,391,580	105,420
Nkangala District Municipality	-	680,672
	312,613,821	**248,889,189**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2011: R -), which is funded from the grant.

MIG grant

Balance unspent at beginning of year	47,990,019	37,213,274
Current-year receipts	89,106,000	74,088,000
Conditions met - transferred to revenue	(108,227,198)	(63,311,255)
	28,868,821	**47,990,019**

Conditions still to be met - remain liabilities (see note 7).

FMG grant

Balance unspent at beginning of year	-	301,814
Current-year receipts	1,250,000	3,000,000
Conditions met - transferred to revenue	(1,250,000)	(3,301,814)
	-	**-**

International electric grant

Balance unspent at beginning of year	-	216,718
Current-year receipts	1,813,000	-
Conditions met - transferred to revenue	(1,813,000)	(216,718)
	-	**-**

MSIG grant

Balance unspent at beginning of year	326,043	-
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(1,116,043)	(423,957)
	-	**326,043**

Conditions still to be met - remain liabilities (see note 7).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Government grants and subsidies (continued)

EPWP

Balance unspent at beginning of year	1,103,580	-
Current-year receipts	288,000	1,209,000
Conditions met - transferred to revenue	(1,391,580)	(105,420)
	-	**1,103,580**

Conditions still to be met - remain liabilities (see note 7).

Nkangala District Municipality

Balance unspent at beginning of year	-	680,672
Conditions met - transferred to revenue	-	(680,672)
	-	-

12. Other income

Other income	4,070,595	4,133,710

The amount included in other revenue arising from exchanges of goods or services are as follows:

Application for tender documents	358,360	398,358
Sale of houses	129,305	129,568
Sale of stands	80,527	225,342
Septic Tank Fees	152,856	168,107
	721,048	**921,375**

The amount included in other revenue arising from non-exchange transactions is as follows:
Donated assets

Deemed income from donated assets	2,305,000	2,154,407

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. General expenses

Auditors remuneration	1,259,510	1,916,491
Provision for rehabilitation of dumping site	-	114,362
Consulting and professional fees	3,050,979	3,234,648
Prodiba	691,785	1,027,850
Insurance	1,383,338	983,115
Sanitation	1,939,431	19,229,963
VIP Toilets	6,482,374	2,140,838
Lease rentals on operating lease	235,286	1,022,586
Legal costs	3,449,226	1,638,492
Motor vehicle expenses	3,604,242	2,026,073
VAT recovery expenses	4,024,582	5,735,960
Valuation roll	2,763,158	1,184,211
Fuel and oil	3,471,945	1,993,346
Data cleansing - indigent register	23,399	3,241,142
Other expenses	14,928,062	7,154,824
Security (Guarding of municipal property)	10,484,581	6,872,630
Telephone and fax	2,313,172	415,252
Travel - local	1,873,959	2,422,902
Electricity and water services	4,150,014	2,429,923
Free basic water	7,069,325	6,519,015
Free basic electricity	1,725,575	2,634,937
	74,923,943	**73,938,560**

Figures in Rand	2012	2011

14. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Interest	2,074,845	1,544,945
Operating lease charges		
Premises		
• Contractual amounts	15,755	918,259
Equipment		
• Contractual amounts	219,531	104,327
	235,286	**1,022,586**
Gain on sale of property, plant and equipment	438,596	-
Impairment of unallocated payments made in 2009/2010	-	3,059,139
Depreciation	64,066,096	61,117,181
Employee costs	65,886,885	59,028,907

Minimum lease payments

Payable within 12 months after year end	317,212	-
Payable betwee 2 to 3 years	33,630	
Payable between 3 to 5 years	319	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Employee related costs

Basic	39,615,878	35,513,096
Medical aid - company contributions	2,540,257	2,686,426
UIF	228,087	219,580
SDL	474,230	400,332
Leave pay provision charge	1,197,823	611,696
Cellphone allowances	899,855	988,799
Councillor's allowance	13,936,682	12,378,701
Post-employment benefits - Pension - Defined contribution plan	6,115,677	5,180,218
Travel, motor car, accommodation, subsistence and other allowances	-	96,000
Housing benefits and allowances	878,396	954,059
	65,886,885	**59,028,907**

Remuneration of municipal manager

Annual Remuneration	741,391	-
Car Allowance	90,000	-
		-
	831,391	**-**

Remuneration of chief finance officer

Annual Remuneration	507,943	-
Car Allowance	140,000	-
		-
	647,943	**-**

Remuneration of management

Annual Remuneration	5,740,976	1,590,072
Car Allowance	1,057,000	170,000
	6,797,976	**1,760,072**

16. Debt impairment

Debt impairment	44,651,056	37,661,160

17. Interest income

Interest income		
Investments	2,074,845	1,544,945
Bank	3,437,442	2,623,796
Consumer debtors	12,908,458	9,279,587
	18,420,745	**13,448,328**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Auditors' remuneration

Fees	1,259,510	1,916,491

19. Grants and subsidies paid

Other subsidies		
Grant expenditure	1,740,432	809,998

20. Bulk purchases

Water	97,566,825	75,180,534

21. Cash generated from operations

Surplus (deficit)	14,225,858	(10,212,625)
Adjustments for:		
Depreciation	64,066,096	61,117,181
Loss on sale of assets and liabilities	(438,596)	-
Impairment of unallocated payments relating to 2009/2010	-	3,059,139
Debt impairment	44,651,056	37,661,160
Movements in provisions	(8,169)	114,362
Income raised on donated assets	(2,305,029)	(2,154,407)
Changes in working capital:		
Trade and other receivables	(3,006,086)	433,404
Consumer debtors	(44,651,056)	(37,661,160)
Trade and other payables	38,850,489	(10,459,193)
VAT	(8,404,934)	22,029,915
Unspent conditional grants	(20,550,821)	11,007,164
	82,428,808	**74,934,940**

22. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	26,171,510	56,681,859

Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	2,697,311	897,956

23. Contingencies

Probable financial iimpact on the municipality as a result of legal cases

THLM/RM Mokoena Case No: 52839 - Mr SL Skhosana is suing the municipality for wrongful arrest	-	2,002,500
THLM/Mpumelelo - The Light of the World. Case No: 21992/12 (Joint Venture between Lawmark and Casnans is suing the municipality for breach of contract)	-	6,089,562
THLM/Lawmark Consulting CC Case No: 70121/11(The contractor is demanding payment of R 1,2 million after termination of contract)	-	1,200,000
Dorah Zodwa Masombuka is suing the municipality for falling on the hole dug by the municipality for repair of pipe	-	500,000

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Related parties

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Relationships

Accounting Officer	Refer to accounting officer's report note
Fellow Municipalities	Kungwini Local Municipality
	Dr JS Moroka Local Municipality
	Nkgangala District Municipality
Members of key management	Councillors
	Section 57 managers

Related party balances

	2012	2011
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Dr JS Moroka Local Municipality	-	(79,727)
Kungwini Local Municipality	-	(1,935,951)

Related party transactions

	2012	2011
Purchases from (sales to) related parties		
Dr JS Moroka Local Municipality	1,435,175	1,169,029
Kungwini Local Municipality	4,840,300	20,121,515
Donated assets		
Nkangala District Municipality	2,305,000	2,024,100
Remuneration		
Councillors	13,936,682	12,378,701
Section 57 Managers	2,264,052	1,706,072

25. Accounting Officer and Chief Financial Officer's emoluments

Executive

2012

	Emoluments	Other benefits*	Total
JI Sindane	533,950	90,000	623,950
S Magwaza	207,441	-	207,441
MS Makgaba	360,443	140,000	500,443
TG Ratau	147,500	-	147,500
	1,249,334	**230,000**	**1,479,334**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Change in estimate

Property, plant and equipment

In the prior year the the municipality applied Directive 4 to account for its Property, Plant and Equipment. In the current period management have fully complied with GRAP 17 and are now fully reconising values of their Property, Plant and Equipment as required by GRAP Standards.

The impact on the financial statements is as follows:

Statement of financial position

Property, plant and equipment	1,875,786,042

Statement of Financial Performance

Depreciation	61,117,181

Notes to the Annual Financial Statements

Figures in Rand		2012	2011

27. Prior period errors

The municipality did not raise a debtor relating to properties transferred over from the Kwa-Ndebele Government which were subsequently diposed off to residents by the municipality.

The municipality did not impair the debor raised for properties transferred over by the Kwa-Ndebele Government as the debtor is slow moving and has been long outstanding.

The correction of the errors results in adjustments as follows:

	2012	2011
Statement of financial position		
Trade and other receivables	-	15,840,870
Provision for doubful debts	-	(15,840,870)

28. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

	Note	2012	2011
Less: Cash and cash equivalents	6	75,911,716	84,584,233
Net debt		(75,911,716)	(84,584,233)
Total equity		2,022,378,274	146,230,842
Total capital		**1,946,466,558**	**61,646,609**

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

29. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

30. Events after the reporting date

- The Senior Internal Auditor has resigned.
- The resignation does not have any financial impact.

31. Irregular expenditure

	2012	2011
Opening balance	60,021,977	20,522,975
Add: Irregular Expenditure - current year	11,653,281	39,499,002
Less: Amounts condoned	(60,021,977)	-
	11,653,281	**60,021,977**

Details of irregular expenditure – prior year

	-

Details of irregular expenditure - current year

	Action taken by the municipality	
Legal costs incurred on cases that the municipality could have avoided.	Council still to condone.	3,585,498
Awards made to persons in the service of the state.	The muncipality to liase with Provincial Treasury on effective measures to identify personnel in the service of the state.	5,464,399
There is no proof of tender documents and service level agreement.	Council still to condone.	1,040,845
There is no proof of minutes of declaration of interest from suppliers.	The municipality is busy trying to locate the said documents.	1,242,177
There are insufficient quotations.	Council still to condone.	320,362
		11,653,281

32. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

	2012	2011
Net surplus (deficit) per the statement of financial performance	14,225,858	(10,212,625)

33. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

	2012	2011
Operating activities		
Actual amount as presented in the budget statement	(82,428,807)	(13,448,327)
Net cash flows from operating activities	**82,428,808**	**(26,896,654)**
Investing activities		
Actual amount as presented in the budget statement	(91,101,324)	(44,474,615)
Financing activities		
Actual amount as presented in the budget statement	(8,672,518)	(57,922,942)
Net cash flows from financing activities	**(8,672,518)**	**(57,922,942)**
Net cash generated from operating, investing and financing activities	**(17,345,034)**	**(129,294,211)**

Detailed Income statement

Figures in Rand		2012	2011
Revenue			
Property rates		6,535,187	3,394,967
Service charges		32,701,908	28,646,786
Rental of facilities and equipment		335,487	353,298
Fines		44,724	72,140
Licences and permits		6,368,680	6,225,601
Government grants & subsidies	11	312,613,821	248,889,189
Other income		4,070,595	4,133,710
Interest received - investment	17	18,420,745	13,448,328
Total Revenue		**381,091,147**	**305,164,019**
Expenditure			
Personnel	15	65,886,885	59,028,907
Depreciation and amortisation		64,066,096	61,117,181
Impairment of unallocated payments		-	3,059,139
Debt impairment	16	44,651,056	37,661,160
Repairs and maintenance		18,468,648	4,581,165
Bulk purchases	20	97,566,825	75,180,534
Grants and subsidies paid	19	1,740,432	809,998
General Expenses	13	74,923,943	73,938,560
Total Expenditure		**367,303,885**	**315,376,644**
Gain on disposal of assets and liabilities		438,596	-
Surplus (deficit) for the year		**14,225,858**	**(10,212,625)**

The supplementary information presented does not form part of the annual financial statements and is unaudited

Appendix E
June 2012

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current year 2011 Act. Bal. Rand	Current year 2011 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	6,535,187	4,200	6,530,987	,499.7	The valuation roll was still in the process of being compiled so that billing can be accurate.
Service charges	32,701,909	37,000	32,664,909	,283.5	The municipality was still in the process of cleansing data so that correct billing can happen.
Rental of facilities and equipment	335,487	127,500	207,987	163.1	Un-antipated renting out of community halls to residents.
Fines	44,724	40,000	4,724	11.8	More offenders than anticipated.
Licences and permits	6,368,680	924,000	5,444,680	589.3	As a result of unemplyment leading to more people venturing into businesse.
Government grants & subsidies	312,613,821	246,707,000	65,906,821	26.7	MIG spending in excess of what was anticipated.
Other income	4,070,595	1,250,000	2,820,595	225.6	Includes deemed income as a result of donated assets.
Interest income	18,420,745	350,000	18,070,745	,163.1	Budgeting performed on anticipated interest on bank balances but not on billing.
	381,091,148	249,439,700	131,651,448	52.8	
Expenses					
Personnel	(65,886,884)	(75,830,189)	9,943,305	(13.1)	Positions have already been advertised, intervies conducted and placements are still to be made.
Depreciation	(64,066,096)	(10,000,000)	(54,066,096)	540.7	Depreciation on infrastructure assets not budgeted for as the municipality was still in the process of compiling and infrastructure asset register.
Debt impairment	(44,651,056)	(3,500,000)	(41,151,056)	,175.7	Management embarked on full scale debt collection process and they believed only few debtors would be impaired.
Repairs and maintenance	(18,468,648)	(23,404,921)	4,936,273	(21.1)	A lot of municipal assets needed repairing and some contractors are still busy repairing as at year end.
Bulk purchases	(97,566,825)	(64,000,000)	(33,566,825)	52.4	The municipality could not foresee the increased demand for water supply.
Grants and subsidies paid	(1,740,432)	(1,740,432)	-	-	
General Expenses	(74,923,945)	(97,714,575)	22,790,630	(23.3)	Some of the goods and services were only procurred closer to year end resulting in actual spending occuring in the next financial year.
	(367,303,886)	(276,190,117)	(91,113,769)	33.0	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	438,596	-	438,596	-	Public auction of municipal assets
	438,596	-	438,596	-	
Net surplus/ (deficit) for the year	14,225,858	(26,750,417)	40,976,275	(153.2)	